

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

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SUBJECT: DEVELOPMENTS ON THE BANKING FRONT

REF CAIRO 7274

1. THE FRUSTRATIONS FACING THE FOREIGN BANKS, PRIMARILY AMERICAN, ATTEMPTING TO ESTABLISH THEIR OPERATIONS IN EGYPT UNDER THE OPEN DOOR POLICY WERE REPORTED IN REFTEL, WHICH ALSO CONVEYED THE EMBASSY'S VIEWS ON THE FURTHER DELAYS THAT WERE ANTICIPATED BEFORE ANY REAL PROGRES COULD BE EXPECTED. THE SITUATION MAY NOW HAVE CHANGED.

2. THE DELAY WAS PARTICULARLY GALLING TO GUENTHER NEUBERT, MANAGER OF CHASE MANHATTEN. IN ADDITION TO THE SPECIAL RELATIONSHIP WHICH CHASE FEELS IT ENJOYS AS THE RESULT OF THE PERSONAL FRIENDSHIP BETWEEN DAVID ROCKEFELLER AND PRESIDENT SADAT, THE BANK HAS MAINTAINED AN INTEREST IN MATTERS EGYPTIAN OVER THE YEARS, RAISED \$80 MILLION AS PART OF THE GOE'S CONTRIBUTION TO THE CAPITAL FOR THE SUMED PIPELINE, AND WAS THE FIRST FOREIGN
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BANK TO APPLY FOR PERMISSION TO OPEN A JOINT VENTURE

UNDER THE NEW INVESTMENT LAW. DESPITE ALL THE CREDENTIALS, HOWEVER, CHASE IS NO FURTHER ALONG THAN ANY OF ITS COMPETITORS.

3. NEUBERT IS A MAN OF ENERGY, DETERMINATION, ENTHUSIASM, AND, UNTIL RECENTLY, OPTIMISM. HE HAS ASSEMBLED A SMALL STAFF OF CHASE EXPERTS WITH MORE ON THE WAY, LEASED OFFICES AND HOUSING, SOUGHT OUT CUSTOMERS, AND HAS GIVEN VAST AMOUNTS OF HIGHLY ENCOURAGING INFORMATION TO POTENTIAL INVESTORS FROM A NUMBER OF COUNTRIES. SINCE THE LATTER ARE INTERESTED IN INVESTING UNDER THE VERY LAW THAT HAS THUS FAR BLOCKED CHASE, NEUBERT HAS ADDED EMBARRASSMENT TO THE FRUSTRATION AND DISAPPOINTMENT THAT HAVE STEADILY ACCUMULATED DURING THE LAST MONTHS.

4. WHEN HE CAME TO THE SAME CONCLUSIONS AS THOSE REPORTED BY THE EMBASSY WITH RESPECT TO THE EXPECTED TIME INTERVAL BEFORE OPERATIONS COULD COMMENCE, AND THE LIKELIHOOD THAT THE OPERATIONS MIGHT BE RESTRICTED TO DEALINGS IN FOREIGN CURRENCIES ONLY (THEREBY PREVENTING THE COMMERCIAL WORK IN LOCAL CURRENCIES WHICH IS THE BASIS FOR THE JOINT VENTURE PROPOSAL), NEUBERT CAME IN TO TELL US THAT HE WAS CONSIDERING RECOMMENDING TO THE HOME OFFICE THAT THE EFFORT BE ABANDONED. HE WAS UNWILLING, HE SAID, TO COMMIT THE BANK TO FURTHER CAPITAL EXPENDITURES WHEN THERE WAS LITTLE HOPE THAT ANYTHING WOULD BE DONE BEFORE ANOTHER THREE TO SIX MONTHS. (WHILE HE DID NOT SAY SO, THERE IS QUITE PROBABLY AN ELEMENT OF PERSONAL THINKING INVOLVED. HE IS REPORTED TO HAVE TURNED DOWN A NUMBER OF HIGHLY DESIRABLE POSTS TO COME TO CAIRO, AND HITCHING YOUR WAGON TO A SUBMARINE IS NO MORE ATTRACTIVE TO A BANKER THAN IT IS TO ANYONE ELSE.)

5. AS AN ALTERNATIVE, HE SAID HE WAS THINKING OF THE POSSIBILITY OF BRINGING ROCKEFELLER INTO THE PICTURE, IN ORDER TO GET THE PROBLEM BEFORE SADAT. SADAT'S DOMESTIC PROBLEMS NOTWITHSTANDING, NEUBERT SAID HE COULD NOT IN GOOD CONSCIENCE CONTINUE RECOMMENDING INVESTMENT IN A COUNTRY THAT WILL NOT LET IN A BANK THAT LIMITED OFFICIAL USE

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IS SUPPOSED TO FACILITATE INVESTMENTS.

6. ONE OF THE REASONS FOR NEUBERT'S DEMARCHE TO THE EMBASSY WAS CLEARLY TO SECURE OUR HELP IN FOCUSING THE GOE ON THE DELETERIOUS RESULTS ON THE LOCAL INVESTMENT PICTURE IF CHASE SHOULD WITHDRAW, OR EVEN THREATEN TO PUBLICLY. AN OPPORTUNITY TO DO SO PRESENTED ITSELF LAST NIGHT, DURING MY CALL ON SADAT.

AS I WAS LEAVING I TOLD HIM OF THE CONCERNS OF THE BANKING COMMUNITY. HE SEEMED SURPRISED AT THE DELAYS TO WHICH I REFERRED, AND TOLD ME TO ASSURE THE INTERESTED PARTIES THAT HE WOULD TAKE THE NECESSARY STEPS. HE SAID HE WOULD MENTION IT TO HEGAZY, WHO CAME IN AS I LEFT.

7. COMMENT: WITH ALL THE OTHER THINGS THAT ARE ON THE PRESIDENT'S MIND, HIS INTEREST IN THE BANKING SITUATION CONFIRMS HIS UNDERSTANDING OF THEIR ROLE HERE. I AM CERTAIN THAT HE WILL FOLLOW UP, BUT I AM NOT SURE JUST WHAT THE REST OF THE BUREAUCRACY WILL DO ABOUT IT. WHILE THE OPERATION OF FOREIGN BANKS IN THE LOCAL MARKET POSES A SPECIFIC PROBLEM FOR ONE SECTOR OF THE ECONOMY, LEADING TO ACCUSATIONS THAT CENTRAL BANK GOVERNOR AHMED ZENDOU IS THE ONE MAN BLOCKING PROGRESS, IT IS NOT CLEAR THAT THE GOE HAS YET SECURED THE BROAD ACCEPTANCE OF THE OPEN DOOR POLICY THAT APPEARS TO BE A REQUIREMENT BEFORE ITS FULL IMPLEMENTATION. AT THE VERY LEAST, HOWEVER, NEUBERT'S SPIRITS HAVE BEEN CONSIDERABLY RAISED.
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